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national farmers union

In Union Is Strength

National Farmers Union

Submission

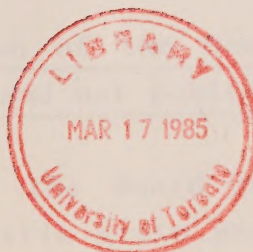
to the


Canadian Wheat Board

presented

Winnipeg, Manitoba

March 7, 1986





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INTRODUCTION:

We welcome this opportunity of meeting with you to present our views on a number of issues. While we have had the benefit of representation from your Board at all our national conventions, it is three years since our Executive members last participated in a formal presentation.

Since that time, grain production and marketing conditions have undergone a radical swing. In the 1984-85 crop year, grain exports made by the Board declined by 25% from the record established in 1983-84. Drought reduced crop yields in both 1984 and 1985. To further compound marketing problems, extremely poor harvesting conditions in 1985 have produced an over-abundance of low quality grain.

Producers, generally, recognized that the Board experienced a difficult marketing year in 1984-85. As a consequence, they were relatively well pleased with the levels of final payments received on grain deliveries made in 1984-85, although the final realized price for No. 1 CWRS wheat was the lowest since 1978-79.

We support the action of the Board in announcing only the level of final grain payments and not publicizing the aggregate amount.

We also congratulate the Board on having achieved its 50th Anniversary of service to prairie grain producers and assure you that it shall continue to have the strong support of the farm union movement in future years as it has since its inception. Such support may never become more necessary than it is at the present time.

CURRENT PROBLEMS AND CHALLENGES:

Thousands of farmers are feeling the economic squeeze as a result of natural disaster and generally stagnant price levels for the

great majority of farm products. Continuing high interest rates and input costs are also having an impact on the health of the farm economy. The rising number of farm bankruptcies and insolvencies bears mute testimony to the severity of conditions.

In the grains sector a number of problems have been encountered in addition to those created by natural disaster.

The carry-over of 11 million tonnes of grain into the current crop year was the lowest since 1951-52. As a result, the inventory stocks of on-farm high grade wheat was relatively low leading into a harvest which experienced extremely poor conditions and large quantities of tough and damp grades.

On the basis of Canadian carry-over stocks, the grain market should have been "bullish" but with large 1985 carry-over and production in other exporting countries, particularly the U.S., world prices have been depressed in what essentially is a buyers' market.

Aggressive and predatory pricing and marketing practices by the U.S. which include sharp reductions in grain loan rates threaten to seriously undercut both our prices and export levels for 1985-86 and beyond. The 1985 U.S. loan rate for wheat was reduced from U.S. \$3.30/bushel in 1985 to U.S. \$2.40 in 1986, and from U.S. \$2.55/bushel to U.S. \$1.92/bushel for corn while retaining target prices at \$4.38 and \$3.03 respectively. Canadian producers cannot compete against the U.S. Treasury.

While these external pressures are extremely serious, we are also concerned by a number of internal constraints and pressures to which the Board is being subjected in attempting to fulfill its mandate for producers.

In its summary report on the 1984-85 crop year, the Board refers to market and price opportunities lost for barley because farmers held off deliveries until late in the crop year. It also refers to problems incurred in acquiring oats for export.

In spite of offering barley contracts to producers in this crop year in order to secure supplies, the Board within recent weeks

again has been under pressure to acquire sufficient barley supplies to meet sales commitments out of Vancouver. The problem was compounded by cold weather and derailments.

Shipping problems through the St. Lawrence Seaway have resulted in considerable down time this past year. Rising Seaway costs have shifted the sales advantage in favour of west coast ports and prompted the Board to propose shifting its eastern pool accounts to the St. Lawrence from Thunder Bay as of August 1st.

Proliferation in the production of short strawed varieties of wheat, both HY 320 and unprescribed varieties, has caused a feed wheat glut on the market at a time when high grade wheat is required. Maintaining the integrity of our export wheat quality standards have also become a concern because of possible pollution from unprescribed varieties.

In addition, producers face the threats of:

- a) declining initial and world grain prices in the 1986-87 crop year;
- b) continuing increases in grain elevation charges at country and terminal elevators;
- c) rising freight rates, delivery point rationalization and rail branch line abandonments in the immediate years ahead;
- d) changes to the method of payment of the Crow Benefit, should they occur, would further sharply reduce the levels of already low initial grain price levels;
- e) continuing high input costs and interest rates; and
- f) depressed domestic feed grain prices.

Against this background, it is obvious to our members that the jurisdiction and marketing power of the Board needs to again be strengthened if the principles of orderly marketing are to survive and the Board is to properly fulfill its mandate to producers.

STRENGTHENING THE ORDERLY MARKETING OF GRAIN:

We are concerned by difficulties the Board has reported in acquiring adequate stocks of certain classes and grades of grain when required to meet export commitments.

In part, we attribute this difficulty to the existence of a dual marketing system for feed grains under which the domestic market has been removed from Board jurisdiction other than for the allocation of delivery quotas.

While we accept that the fulfillment of domestic feed grain demands must be accorded priority over the marketing of feed grains into export, we do not believe the operation of an open market system domestically and a single desk selling system into export markets can operate as efficiently and effectively as can a single desk orderly marketing system for both the domestic and export markets. Indeed Board statistics confirm that open market domestic sales have consistently been lower priced than export sale prices. Abandonment of corn formula pricing eventually became necessary.

The volume of grain required for the combined export and domestic markets can be reasonably estimated. One delivery quota serving both markets surely is not beyond possibility. The Board would be accorded greater flexibility in managing stocks for specific purposes. It would be able to better maximize returns to grain producers through more intelligent inventory control. Higher grade grains would not be sold as feed grades. It would have better information with which to plan its sales programs.

The orderly system of marketing is based on the principle of providing producers equality of delivery opportunity. When the dual quota system results in a shortage of supply accruing to the Board for export sales and more than adequate inventory exists in off-board control to meet domestic demand, it represents a loss of marketing opportunity. It frustrates Board efforts for contracting forward sales commitments. It creates doubts in the minds of foreign buyers of our credibility as a reliable supplier.

With all the emphasis the federal government placed on our

potential for increasing grain exports if farmers only would sacrifice statutory grain freight rate protection, the government needs to now recognize the irony and contradiction that exists within the present marketing situation.

It is a contravention of the basic orderly marketing principle of equality of delivery opportunity when the Board feels compelled to contract for barley supplies to meet export commitments. Current contracts will expire March 15 and the Board will need to assess the wisdom of pursuing this type of program.

To further frustrate the future of Board jurisdiction, we are now confronted by the rhetoric of free trade between Canada and the U.S. and all the possible negative implications to orderly grain marketing that implies. The proponents of free trade within the grain trade well understand the destructive impact this would have on Wheat Board marketing and its import licensing controls.

For the sake of strengthening Canadian sovereignty and better serving the interests of Prairie grain producers, we urge this Board support our recommendation to the federal government that full marketing jurisdiction, domestic and export, for wheat, oats and barley be restored to C.W.B. control.

We further recommend that rye, flax and canola marketing be placed under C.W.B. control and the Board's mandate be then broadened to include the marketing of all grains produced in Canada.

INITIAL GRAIN PRICES:

Grain producers are under a great deal of stress and anxiety at the prospects of sharply reduced initial grain prices being implemented for the 1986-87 crop year commencing August 1st. Rumours have persisted and "kites been flown" suggesting initial prices might decline from the present \$160/t to \$140/t for #1 CWRS wheat.

Such drastic reductions would apparently be prompted by the decline of world grain prices in general and the actions of the U.S. government in lowering its 1986 loan rate for wheat to U.S. \$2.40/

bushel from the previous \$3.30/bushel and for corn to \$1.92/bushel from \$2.55.

The U.S. action holds serious implications with respect to the possible impact on world grain prices and presents a serious competitive challenge to sales. Nonetheless, we submit Canadian farmers can ill afford to compete with the U.S. treasury. The time for the Canadian government to back up grain producers has never been more necessary than now.

The government is currently preoccupied in cutting the national deficit through tax increases and the implementation of various cost recovery programs. Farmers, too, need cost recovery on the products they produce since we do not possess the powers of taxation to do so.

Initial wheat prices were reduced to \$160/t in the current crop year from \$170/t in 1984-85 while No. 1 Feed Barley was reduced to \$110/t from \$125/t.

A 7.5% decline in 1986 prairie farm income is forecasted by Statistics Canada. Grain exports and domestic disappearances are lagging behind the previous crop year. The seriousness of the farm finance crisis is intensifying and farmers need every dollar they can muster to meet ongoing expenses. The February 26 federal budget provided no relief for the deteriorating situation. Quota delivery opportunities for thousands of farmers in possession of only lower quality grains, many in the tough and damp grades, have been particularly dismal this fall and winter.

We, therefore, recommend the federal government support producers at no less than the current initial price levels for 1986-87 crop year for wheat, oats and barley delivered to Board account.

The federal government must also provide the Board with the mandate to at times sell below initial prices if necessary. We emphasize that this would be a better option than expecting producers to bear the brunt of weak world market prices and further losses while producers elsewhere remain highly subsidized.

We also point out that the level of initial grain prices often dictate the levels of domestic feed grain prices. These already are at fire sale prices and do not need to be further depressed for the benefit of the industrial sector.

DOMESTIC PRICE FOR WHEAT:

Commencing January 1, 1986, the domestic price for wheat was established at \$254.32/t or approximately \$6.92 per bushel. This price represented a marked improvement over the price set for the previous three month period. Ten cents per loaf to the farm share still falls far short of wheat we believe consumers could afford to pay.

The current federal policy of linking the domestic price to world prices within a \$5 to \$7 range does not relate farm production costs to the establishment of domestic wheat prices and is, therefore, unrealistic.

While the milling and baking industry strongly protested the January 1st increase and immediately increased flour and bread prices by exaggerated amounts, we question how much wheat will actually be purchased by the trade within the current three month pricing period if the prospects exist for lower domestic wheat prices commencing April 1st. We do not anticipate the response in lowering flour and bread prices would match the haste to increase prices.

Our members are of the view that the current domestic price for wheat used for human consumption should be established at no less than \$10/bushel which would increase the farm share in a loaf of bread to 14.2 cents. On annual human domestic wheat consumption of about 2 million tonnes, this would represent an annual average return to 145,000 permit book holders of \$5068 as their share of the domestic wheat price - an increase of \$1560 over the current average producer return.

We request your support for this proposal.

SHORT STRAWED VARIETIES:

In recent years an increasing volume of unprescribed short strawed varieties of wheat have been produced in the prairie region.

At the same time the Canadian bred HY 320 has been produced under contract to the Board to meet specific market demands but now appears to be fading fast as a major export money earner. Contracting for production of HY 320 is being discontinued by the Board.

We are greatly concerned by the proliferation that has occurred in the production of the unprescribed varieties and the potential problem this has created throughout the system and the threat it has created in preserving our reputation for high quality bread wheats.

It is a matter of additional concern that Agriculture Canada has essentially turned a blind eye to this expanding problem and has in fact provided accommodation to permit its commercial marketing. While amendments on November 7, 1985, were made to the Seeds Act and the Canada Grain Act through Bill C-64, nothing has changed to control the production of these U.S. varieties.

A committee was appointed on December 13 by Wheat Board Minister Charles Mayer to examine the unprescribed varieties issue but in the meanwhile the proliferation of seed sales of unprescribed varieties has continued and the pollution of prairie grain lands will continue.

In our view, claims made in advertisements which appeared this winter in the Western Producer offering unprescribed seed should have been sufficient to trigger prosecution proceedings. (See Appendix 1) The seed referred to was for Oslo wheat with an asking price of \$8.50 per bushel.

It is ironic that the best sales opportunities for Canadian wheat have been our high quality varieties of which there has been a shortage.

This fact was noted at a recent U.S. National Association of Wheat Growers annual meeting held in Reno, Nevada. E.F. Hutton meteorologist Gail Martell is reported to have told the meeting: "Crop problems in recent months in Canada and Argentina have sharply reduced world supplies of high quality wheat, which could increase demand for U.S. wheat." Adjacent to the article entitled, "World wheat quality could be boon to U.S.", appeared an advertisement for unprescribed

wheat. (Appendix 1)

The NFU Board of Directors has gone on record opposing the production of unprescribed short-strawed varieties of wheat for the purpose of delivery to primary elevators and/or grain terminals.

It also recommends that the penalty for the delivery of unprescribed short-strawed varieties of wheat to primary elevators and/or terminals result in the suspension of the primary producer's C.W.B. delivery permit book for the remainder of the crop year and the next following crop year.

We request your support for these recommendations.

MARKET ASSURANCE PROGRAM:

It is likely that many farmers may end the current crop year with relatively high inventories of low quality grain on hand.

It seems appropriate that efforts again be initiated to structure a Market Assurance Program to assist in the easing of the farm finance and inventory burden now confronting some farmers.

The NFU has for a number of years proposed the implementation of a MAP which has been brought to your attention. Our policy proposal for this program is included as Appendix II.

We request your assistance in the promotion of this program. It becomes evident that as commercial grain storage capacity declines as a result of elevator rationalization, the use of on-farm storage assumes growing importance. It needs to be integrated into the total grain storage system in a meaningful and constructive way.

INTERNATIONAL WHEAT AGREEMENT:

The International Wheat Council recently approved most of the draft text of the International Wheat Trade Convention, 1986, a key part of a new International Wheat Agreement scheduled to come into force on July 1 next year.

The new pact reportedly strengthens co-operation between I.W.C. members on wheat and other grains, special reports and market consultations between members.

The new I.W.A. continues to be mainly an international forum for exchanging information on wheat and other grain markets. I.W.C. reports and special studies will focus mainly on supply, demand and market conditions, on development in national policies and their impact on the international market and on developments concerning improvement and expansion of trade, storage, use and transportation.

In summary, the new I.W.A. will primarily act as a window on the world grain trade but will apparently do very little, if anything, to regulate predatory trading practices or establish basic price levels at which grain will be traded.

The current free market pricing structure and cut-throat competitive climate among exporters for world market shares has a major destabilizing effect upon farmers in all countries.

We recommend Canada take the lead in attempting to restore a greater degree of stability to world grain markets and prices through the International Wheat Council in negotiations for the new 1986 International Wheat Agreement. Our organization does not support a grain agreement being negotiated in conjunction with forthcoming discussions under GATT.

ADVISORY COMMITTEE:

The elections for C.W.B. Advisory Committee members is again upcoming this year.

Once again, we request that the Peace River Bloc of Alberta and B.C. be designated as a separate Wheat Board Advisory district.

We further request that Advisory Committee elections be conducted during the winter months and ballots be sent to producers by registered mail.

OTHER POLICY ISSUES:

On other policy issues:

1. We call upon the Board to permanently discontinue the practice of "switching" grain stocks within the country and terminal elevator system.

2. In respect to the Western Grain Stabilization Program, we call upon the C.W.B. to provide a page in the quota permit book to enable country elevator managers to record farmer contributions to the W.G.S.P. and that when such contributions in each crop year attain the maximum amount payable, they be discontinued on further deliveries.

We further urge the maximum contribution to W.G.S.P. payable by producers be reduced to \$500 or alternately producers be provided with the choice of opting out of the program.

3. We recommend that a system of interest-free cash advances for producers on farm-stored grain be implemented which allows each producer equity of income opportunity for each crop year based on the allotted Canadian Wheat Board quota for that year. Such cash advances should be based on 80% of the projected delivery quota in the crop year. Maximum cash advances should be increased to \$25,000.

4. Until such time as the railway companies are required to purchase all government and C.W.B. hopper cars, we request that shippers of non-board grains be required to pay a special levy as a contribution toward the cost of hopper cars purchased by the C.W.B.

All of Which is Respectfully
Submitted by:

NATIONAL FARMERS UNION

APPENDIX I

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World wheat quality could be boon to U.S.

RENO, Nevada (Reuters) — Crop problems in recent months in Canada and Argentina have sharply reduced world supplies of high quality wheat, which could increase demand for U.S. wheat, E.F. Hutton meteorologist Gail Martell told the National Association of Wheat Growers annual meeting.

"Canada had terrible problems with their harvest," she said.

Severe fall weather made the Canadian harvest one of the latest in 10 years, and only 20 percent of the crop graded No. 1, compared with about 65 percent in the previous two years.

Record high rainfall in parts of Argentina have cut that country's wheat output by one-third, and the quality of the crop is poor, she said.

In addition, Australia had some problems early in the recent harvest campaign before the weather improved, and 25 to 30 percent of the crop in New South Wales, Australia's largest producing state, might have to be downgraded.

The lack of high-quality crops in other major wheat producing countries could force buyers to come to the U.S. market, Martell said.

"Australia and France have been the strongest sellers of wheat in the last couple of months," she said. "They have quality wheat, but their supplies may be running low, and some of that business could come to the U.S."

She added: "France had a very dry fall, which could be a problem for yields this year," and European Community wheat supplies could shrink this year.

The winter wheat crop in the Soviet Union, one of the largest wheat importers in past years, is off to a good start after above-normal precipitation last fall. However, recent warm temperatures in some wheat areas has probably melted snow cover, which could lead to winterkill.

In China, a drought last summer in the rice belt could prompt wheat imports as an alternate food source, Martell said.

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No quota restrictions at all to feed mills, feed lots, livestock operators & for own use. Many competing companies buying off quota or on open market quota & shipping by truck, producer car, dealer car or on elevator street price. Or to CWB for export at price like HY 320 close to #3CW.
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APPENDIX II

Market Assurance Plan

The following principle points represent the basic proposal for a Market Assurance Plan (MAP).

1. As other grains and oilseeds come under Board jurisdiction they become eligible for the Plan.
2. That the cash advance program be continued.
3. A special page or pages be provided in each delivery permit book to record all transactions relating to MAP.
4. At the conclusion of harvest or before December 1 in each year, a producer who wishes to participate in MAP would declare in the permit book the quantities and estimated grades of each kind of grain to be delivered to the Board during the crop year. Note: This would make MAP a voluntary plan.
If, by the end of a crop year, a producer had been unable to deliver the quantity of grain he/she had committed for delivery, the amount of undelivered grain would become MAP grain.
5. The Board would continue to use a quota system on cultivated acreage to call grain forward and to share delivery opportunity among producers.
6. Failure to have declared in the permit book (No. 4 above) would disqualify a producer from participating in MAP.
7. Each application would be accompanied by an affidavit signed by the applicant that the stated quantities of grain are stored on the farm.
8. Each application would state:
 - a) The kind, amount and estimated grade of each grain being committed to MAP.
 - b) Land description where the grain is stored.
 - c) Names and addresses of all persons who have an interest in each kind of grain, and the extent of each person's interest.
 - d) The person or persons to whom payment is to be made.
 - e) The person to whom storage payments are to be made.
 - f) A guarantee that the grain will be kept in good condition.
 - g) The delivery point to which a producer wishes to deliver the grain.
9. Each application to be signed by all persons who have an interest in the grain.

10. Upon acceptance of the application by the Board, and after deducting any outstanding cash advance from previous years, the country elevator manager would issue to each person whose grain has been accepted by MAP, a cheque as an initial payment for the grain at an amount per tonne equal to the initial payment at July 31 at the producer's delivery point for the crop year just ended.

11. On the first day of November and on the first day of each succeeding three-month period, the Board would mail to each person to whom storage is to be paid (8e above), a cheque for an amount per tonne for storage equal to an amount that would be paid if the grain were stored in a licensed elevator.

12. Each person to whom storage is paid shall be responsible to ensure MAP grain is kept in good condition.

13. Storage payments would cease at the end of the three-month period in which the permit holder is notified to deliver grain to an elevator (or such other person identified by the Board.)

14. When MAP grain is needed by the Board, the Board shall notify the permit holder by Registered Mail, and the permit holder shall deliver the grain to an elevator (or such other person identified by the Board).

15. The Board shall make MAP grain available to the local market when arrangements are made with the Board.

16. The Board shall consider MAP grain as a reserve to be called into the system when regular quotas do not bring forward grain needed to meet sales commitments.

17. MAP grain called forward by the Board shall become part of the Pool for the crop year in which the grain is delivered to the Board.

18. All interest and storage costs associated with MAP to be paid by the federal government.

19. All administrative costs associated with MAP to be paid by the Board.

20. Regulations provided for penalties for abuses to be drawn up by the Board.

21. The NFU re-initiate educational meetings at the district and local levels advocating the principles of MAP.

